What should Japanese retail look like?
- 1960: Early postwar
- 1985: Buildup to bubble
- 2010: Today

What would affect structure of retail?
- Factors
- How change over time?
• **Analytic factors**
  • Three laws of retailing
    ◦ Location
    ◦ location and
    ◦ location
  • Mobility
  • Income
  • Legal or other institutional constraints
  • Technology
    ◦ Organizational forms
    ◦ Logistics, IT, other enablers
  • Other?
• How would it affect U utility of consumers?
  ◦ Intangible “rhythm of life”?
• How would it affect employment etc?
• Other criteria?
• My claim: A retail revolution
  ◦ that reflects / enables a lifestyle revolution

And why matter?
The early 20th century legacy

- A row of old-style stores (selling to tourists outside the Kenroku-en park in Kanazawa) and an open-air farmers market (in Wajima on the Noto peninsula).
Scenes from a shopping street in Sumida-ku in Tokyo.

商店街
*Shotengai “shopping street”*
• Small “izakaya” – restaurants for fish and sake, located around train stations (the bottom two) or markets (the top one, serving breakfast at 7 am following the fish auctions in Numazu)
The next two photos are the fish market in Numazu in Shizuoka Pref. In 2005 it was an open-air market from which you could see Mt. Fuji
Japan’s retail looks familiar

**Ex ante structure of:**
- Large center city departments stores
  - And specialized retailers
- Neighborhood mom & pop shopping areas

**In context of**
- Dense residential areas
- Small house sizes, initially no refrigerators
- Housewives do shopping: low female LFLow incomes & mobility
- “Blue law” regulations and entry barriers to support the *status quo*
- Suburbanization
- Higher incomes
  - Larger houses, refrigerators
  - Higher opportunity cost of shoppers' time
    - Especially as more women entered the LF
- Changing mobility
- Higher incomes
  - Changing tastes
    - More variety, different goods
    - More ability to shop for prices
• New formats
  ◦ Discount “supermarkets” (cf. K-Mart)
    ◦ Large floorspace
    ◦ At-risk inventory
  ◦ Convenience stores
    ◦ Longer hours
    ◦ Take over liquor licenses
    ◦ Innovations in IT
      • Inventory control
      • Management assistance
      • Supply chain management
  ◦ Franchising
    ◦ McDonald’s, KFC
  ◦ Roadside stores
    ◦ Denny’s
- Department Store Law 1926
  - Large store law, revised multiple times (esp 1973)
  - Prevented entry above a certain floor size
    - Except as approved by local government
- Operating hours
  - *De facto* local cartels
    - Set common day off for shopping streets
    - Informal closing hours for same
    - Formal restrictions on large stores
      - But much milder than in Germany!
- Miscellaneous
  - Liquor sales needed a license
  - Rice had to be through official store
  - Pharmacies restricted in what they could sell
    - Cosmetics initially restricted, too

**Limits to change: Regulatory Restrictions**
- **Real estate prices**
  - Hard to afford good sites
  - Tenancy and other laws made combining land hard

- **Urban structure**
  - Roads not designed for cars as transportation
    - No parking
    - Narrow roads / congestion
  - Limited mobility
    - Local *shotengai* 商店街 or take train to department store
• Despite limitations
  ◦ Gradual new entry
    ◦ Suburbs with no stores and rural areas could approve new entrants
    ◦ But large firms that already had stores loved the restrictions!!
  ◦ Over time large chains gained lobbying clout
    ◦ New parties in urban areas? ➔ less clout for small stores?
    ◦ Also US lobbying for change: trade disputes

• Partial liberalization in 1991
  ◦ Abolished 1998
    • And now strengthened a bit in 2007
New types of stores

- most of the photos are self-explanatory

- the aerial photos are of a portion of a former JFE steel mill being turned into a mall, the first shows the construction phase (ca. 2004), the second the mall itself replete with parking for 5,800 cars
並河交差点左折すぐ
家電・家具・おもちゃ
3km
• Rises in income, mobility
• Suburbanization
  ◦ Larger houses, refrigeration, etc
• Regulatory change
  ◦ Entry regulation process liberalized
    • Floor space restrictions removed
    • Hours restrictions removed
• And post-bubble real estate cheap
• Innovators in “everyday low price” format
  ◦ But first mover (Daiei) bankrupt
    • cf. Sears and K-Mart in the US
• Hypermarkets
  ◦ Jusco, Yokado
• Growing number of big-box and deep discounters
• Example: Sushi
  ◦ decline of “traditional” sit-at-counter sushi shops,
  ◦ rise of take-out
  ◦ rise of franchised kaiten-zushi (conveyor belt)
• Convenience in every variety
  ◦ McDonald’s #1: leader in franchise method
  ◦ Dennys roadside “family restaurant” pioneer and still strong: introduction of new formats
• Clothing, other sectors
  ◦ Fast Retailing (Uniqlo) cf. Zara
• Convenience stores
  ◦ 7-11 stores are a Japanese company
    • But due to a failed leveraged buyout
• ¥100 stores: Daiso
• ¥99 stores (now Lawson) 24-hour small-portion small-format food stores
• Many others

Additional examples
• Similar macro patterns
• Examples of conscious borrowing
• Examples of *de novo* innovation
• And now internationalization
• And exit by Carrefour, Tesco, Metro
  ◦ And to date $6 bil losses by Walmart’s *Seiyu*
Consumer Durables

Graph showing trends in consumer durables from 1966 to 2006. The graph includes lines for various categories such as Beds, Pianos, Cars, Refrigerators, Microwaves, Clothes dryers, Futon dryers, Air conditioners, Color TVs, Stereos, CD players, Computers, Fax machines, and Kitchen units.
Floor size distribution

≥3,000 part of 1,000-3,000 category before 1979

- ≥3,000
- 1,000-3,000
- 500-1,000
- <500
Department Stores and Supermarkets Continue to Lose Share

Note a “supermarket” is comparable to a Walmart (US) or Carrefour or Metro (EU). Originally chains such as Daiei, Jusco and Ito Yokado did not carry food items (as was true of Walmart) but now most provide one-stop shopping.

(1) Sales at Retail Stores (Nominal)$^{2}$
Floor size distribution
≥3,000 part of 1,000-3,000 category before 1979

- ≥3,000 m²
- 1,000 m² - 3,000 m²
- 500 m² - 1,000 m²
- < 500 m²
Market Shares of Food Service Industry

(left scale except for restaurants)
- Rows of shuttered stores
  - Chiba City (top)
  - Narita City, Chiba Pref (bottom two)
Shuttered storefronts
商店街なのに誰もいなくて婆ちゃんに寂しい将来...

商店街なのに誰もいなくて婆ちゃんに寂しい将来...